

## Message Text

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TO ALL EAST ASIAN AND PACIFIC DIPLOMATIC POSTS

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LIMDIS; PASS USADB FOR AMBASSADOR ONLY

E.O. 11652: GDS

TAGS: EGEN, ECON, XC, XE, XP

SUBJECT: OFFICE OF ECONOMIC POLICY WEEKLY STATUS REPORT  
AUGUST 15, 1978

### 1. US-ASEAN MINISTERIAL FOLLOW-UP (LIMITED OFFICIAL USE)

THE IMMEDIATE FOLLOW-UP ON THE US-ASEAN MINISTERIAL IS  
LARGELY COMPLETED, E.G. CABLES ON THE OVERALL ASSESSMENT,  
YOUR MESSAGE TO AMBASSADORS AND DICK COOPER'S SIDE TALKS  
WITH THE ASEAN MINISTERS ON THE COMMON FUND HAVE BEEN SENT;  
THANK YOU LETTERS HAVE BEEN PREPARED; BACKGROUND MATERIALS  
SUCH AS THE BRIEFING BOOKS AND DRAFT SUMMARY RECORD HAVE  
BEEN POUCHED TO OUR ASEAN POSTS; AND INTERESTED EMBASSIES  
HERE HAVE BEEN BRIEFED ON THE RESULTS. WE ARE ORGANIZING  
SUBSTANTIVE FOLLOW-UP. THE AREAS INVOLVED INCLUDE:  
REFUGEES -- STRATEGY FOR MOVING TOWARDS AN INTERNATIONAL  
CONFERENCE; COMMON FUND/COMMODITIES -- ENSURE FOLLOW-UP  
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TO COMMITMENTS ON COMMON FUND GIVEN BY SECRETARIES VANCE  
AND BLUMENTHAL AND EXPLORE POSSIBILITIES FOR PERIODIC  
CONSULTATIONS ON INDIVIDUAL COMMODITY ISSUES; TRADE --  
FOLLOW-UP ON MTN CONSULTATIONS; EXIM - CHAIRMAN MOORE'S  
VISIT; OPIC -- CHUCK ROBINSON INVESTOR MISSION; FOOD  
POLICY -- OFFER TO PROVIDE TECHNICAL CONSULTATIONS ON  
ESTABLISHING AN ASEAN RICE RESERVE; ENERGY -- ENERGY

SURVEY TEAM VISITS AND DEVELOPMENT OF CONSULTATIVE  
MECHANISM; SCIENCE AND TECHNOLOGY -- ARRANGE FOLLOW-UP

CONSULTATIONS; DEVELOPMENT COOPERATION -- FOLLOW-UP ON PROJECTS ALREADY IDENTIFIED AND ARRANGE FURTHER CONSULTATIONS; NARCOTICS CONTROL -- COMPLETE ARRANGEMENTS FOR DRUG EDUCATION SEMINAR (FOLLOW-UP VISIT ALREADY PROPOSED); AND EDUCATIONAL AND CULTURAL EXCHANGE -- CONCLUDE ARRANGEMENTS FOR PROGRAM. WE WILL HAVE A DETAILED LIST OF REQUIRED ACTIONS AND RESPONSIBILITIES INCLUDING OTHER AGENCIES READY FOR DISCUSSION AT THE EA INTERAGENCY GROUP MEETING, AUGUST 21.

2. USHIBA VISIT TO ASEAN AND OTHER ASIAN/PACIFIC CAPITALS (SECRET)

GOJ EXTERNAL ECONOMIC AFFAIRS MINISTER USHIBA HAS COMPLETED A JULY 23-AUGUST 6 VISIT TO THE ASEAN COUNTRIES, AUSTRALIA, NEW ZEALAND AND BURMA TO BRIEF THOSE COUNTRIES ON THE OUTCOME OF THE BONN SUMMIT. BASED ON REPORTING RECEIVED TO DATE, USHIBA APPARENTLY FOUND THESE COUNTRIES VERY CONCERNED OVER THE US-JAPAN TRADE IMBALANCE, THE REPERCUSSIONS OF THE YEN APPRECIATION AND THE ABILITY OF THE ADVANCED NATIONS TO MEET THEIR SUMMIT COMMITMENTS. THE REPORT FROM MANILA INDICATES THAT MARCOS AND USHIBA AGREED THAT THE US HAS TO TAKE THE LEAD AMONG THE DCS  
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TO BRING ABOUT AN AGREEMENT ON THE COMMON FUND. WITH RESPECT TO STABEX, THE MEETING OF THE ASEAN-JAPAN STUDY GROUP, POSTPONED IN MAY, HAS BEEN RESCHEDULED FOR SEPTEMBER. WE HAVE SOME UNCONFIRMED REPORTS THAT FOLLOWING USHIBA'S RETURN, PRIME MINISTER FUKUDA ASKED HIM TO DRAW UP STRONGER ECONOMIC MEASURES FOR JAPAN TO ASSIST ASEAN IN DEVELOPMENT. ONE PROPOSAL USHIBA IS REPORTEDLY CONSIDERING IS THE FORMATION OF A JAPANESE GOVERNMENT "INDUSTRIAL PROJECT TEAM" TO CONDUCT SURVEYS AND HELP ASEAN IDENTIFY PROJECTS. HE APPARENTLY IS ALSO CONSIDERING A PROPOSAL THAT ASIAN SUMMITS BE HELD PRIOR TO SUMMITS OF ADVANCED NATIONS.

3. ADB MOVES AHEAD WITH REACTIVATED SRV LOANS (LOU)

MANAGEMENT HAS ASKED THE ADB BOARD TO CONSIDER THE REACTIVATION OF THREE AGRICULTURAL LOANS TO VIETNAM ON AUGUST 24: (1) BINH DINH IRRIGATION, 2.5 MILLION DOLLARS; (2) TAN AN INTEGRATED DEVELOPMENT, 7.4 MILLION; AND (3) A GO CONG PROJECT, 2.1 MILLION. THERE ARE NO PLANS TO ESTABLISH NEW ECONOMIC ZONES OR STATE FARMS IN THESE PROJECT AREAS. THE BANK CONSIDERS THE PROJECTS TECHNICALLY AND ECONOMICALLY FEASIBLE. AGRICULTURE PROVIDES MOST OF VIETNAM'S NATIONAL INCOME AND WILL BE

THE MAJOR EMPLOYMENT SOURCE FOR SURPLUS LABOR.

THE BANK HAS APPARENTLY DECIDED TO ACCELERATE REACTIVATION OF SRV LOANS. THE BANK RECENTLY APPROVED THE SAIGON POWER PROJECT BUT NO FURTHER REACTIVATIONS WERE EXPECTED UNTIL YEAR END.

4. US RECRUITMENT EFFORT FOR ADB POSITIONS (LOU)

LES EDMOND SUGGESTS THAT WASHINGTON UNDERTAKE A SYSTEMATIC SEARCH FOR THE CANDIDATES FOR THE DEPARTMENT  
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DIRECTOR OF INDUSTRY AND DEVELOPMENT BANKS. THE CURRENT AMERICAN INCUMBENT WILL LEAVE AT YEAR END; LES BELIEVES WE SHOULD PROPOSE HIGHLY QUALIFIED CANDIDATES SHORTLY. HE IS NOT HOPEFUL OF ATTRACTING QUALIFIED PRIVATE SECTOR CANDIDATES BECAUSE OF REMUNERATION AND TAX FACTORS AND SUGGESTS THAT WE EXPLORE SECONDMENT OF A USG OFFICIAL. SEVERAL POSSIBLE AID CANDIDATES HAVE COME FORWARD AND LES SUGGESTS A RECRUITMENT EFFORT TO TURN UP ADDITIONAL USG EMPLOYEES. A/S BERGSTEN HAS INDICATED RESERVATIONS OVER USG DETAILS TO THE BANK BECAUSE THIS UNDERCUTS THE INDEPENDENCE OF IFI INTERNATIONAL STAFFS. BUT, HE IS WILLING TO EXPLORE DETAILS ON A CASE-BY-CASE BASIS. TREASURY, HOWEVER, HAS NO PROBLEM WITH TRANSFERS. WE SHALL LAUNCH AN INTERAGENCY EFFORT TO IDENTIFY ADDITIONAL CANDIDATES. PERSONNEL HAS SUGGESTED EIGHT POSSIBLE SENIOR FSO ECONOMIC OFFICERS BUT FURTHER SCREENING IS NEEDED.

5. GOJ CLARIFICATION ON DOUBLING OF AID (CONFIDENTIAL)

IN RESPONSE TO OUR QUERY, IN AN ORAL STATEMENT APPROVED BY THE PRIME MINISTER'S OFFICE, THE GOJ SAYS THAT IT WILL DOUBLE ITS OFFICIAL DEVELOPMENT ASSISTANCE DURING 1977-1980. HOPEFULLY A 50 PERCENT INCREASE CAN BE ACHIEVED IN 1978 BUT THIS IS NOT A COMMITMENT. THE GOJ TARGET IS IN DOLLAR TERMS, BECAUSE INTERNATIONAL AID PERFORMANCE IS COMPARED IN DOLLARS. THE TARGET IS NOT IN CONSTANT DOLLARS, HOWEVER. THE GOJ, NEVERTHELESS, IS PREPARED TO PROVIDE ADDITIONAL EXPENDITURES SHOULD FURTHER DOLLAR DEPRECIATION MAKE A SUBSTANTIAL DIFFERENCE. GOJ OFFICIALS ADD THAT THEY WILL CONTINUE TO DISCUSS DEVELOPMENT AID WITH US BUT THEY DO NOT WANT TO NEGOTIATE BILATERALLY JAPAN'S DEVELOPMENT ASSISTANCE PLANS.  
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6. IBRD IRRIGATION LOAN (LIMITED OFFICIAL USE)

THE IBRD BOARD APPROVED THE 60 MILLION DOLLAR IDA CREDIT TO THE SRV. THE US WAS THE ONLY COUNTRY OPPOSING IT.

WE MADE NO STATEMENT OF EXPLANATION TO THE BOARD, BUT INFORMED MANAGEMENT AND APPROPRIATE EDS AHEAD OF TIME. FRENCH, SCANDANAVIAN AND JAPANESE EXECUTIVE DIRECTORS COMPLIMENTED MANAGEMENT ON ITS DECISION TO GO AHEAD WITH LENDING TO THE SRV.

7. JOINT STUDY PROGRAM WITH APCAC (UNCLASSIFIED)

APCAC CHAIRMAN BURRIDGE HAS ASSURED OUR EMBASSY IN MANILA THAT THE JOINT APCAC/EMBASSY STUDY ON "THE COMPETATIVE SITUATION FACED BY US EXPORTERS IN EAST ASIA" IS GOING AHEAD. POST AND CHAMBER COMMENT ON THE STUDY HAS BEEN LARGELY FAVORABLE, BUT LACK OF ACTION BY A FEW CHAMBERS COULD RESULT IN AN INCOMPLETE STUDY OR IN OUR NOT HAVING THE REPORT READY IN TIME FOR THE OCTOBER 28 APCAC MEETING. WE SENT LETTERS TO EA E/C CHIEFS LAST WEEK TO UNDERSCORE THE IMPORTANCE WE ATTACH TO THE STUDY.

8. FACTORS CAUSING PERSISTENT INFLATION IN OECD COUNTRIES (LIMITED OFFICIAL USE)

THE ECONOMIC POLICY COMMITTEE, WP-4, DOUBTS THAT DEMAND MANAGEMENT HOLDS DOWN WAGE SETTLEMENTS BECAUSE A SLACK LABOR MARKET ONLY HURTS THE LOWER PAID, NON-UNION SECTOR. THE UNIONIZED SECTOR REMAINS UNAFFECTED AND WILL NOT ACCEPT DOWNWARD FLEXIBILITY OF REAL WAGES. THE OECD SECRETARIAT DEMONSTRATED THAT FIRMS' LABOR BILL DO NOT READILY RESPOND TO CYCLICAL INFLUENCES AND LABOR HAS TAKEN ON SOME ASPECTS OF A FIXED COST. US AND EUROPE DIFFER IN APPROACH TO NON-WAGE COSTS REGARDING THE MIX OF PRIVATE FRINGE BENEFITS AND PUBLIC PROGRAMS AND THE  
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IMPORTANCE OF THESE BENEFITS IN THE TOTAL COMPENSATION PACKAGE. EUROPE TENDS TO ADOPT EMPLOYMENT GUARANTEES, LONG ADVANCE NOTICE FOR WORK FORCE REDUCTIONS AND LARGE REDUNDANCY PAYMENTS.

9. SINGAPORE INVESTMENT TREATY (LIMITED OFFICIAL USE)

L/EB HAS SENT A MEMORANDUM TO UNDER SECRETARY COOPER ANALYZING THE SINGAPORE DRAFT OF THE INVESTMENT TREATY AND FINDING IT WANTING IN SEVERAL AREAS. HOWEVER, DESPITE THESE PROBLEMS, THE MEMORANDUM ASSUMES THAT AN AGREEMENT CAN BE REACHED. THE DRAFT OFFERS MFN, NOT NATIONAL TREATMENT FOR INVESTMENTS; IT CALLS FOR

EXCEPTIONS TO MFN TREATMENT FOR "REGIONAL ARRANGEMENTS" DEALING WITH TARIFF, TRADE OR MONETARY MATTERS AND OTHER EXCEPTIONS FOR "CONDITIONS" WHICH CAN BE AGREED ON AT THE TIME OF INVESTMENT. OUR EMBASSY IN SINGAPORE SUGGESTS THAT THE RECENTLY NEGOTIATED SWISS/GOS TREATY IS A BETTER

NEGOTIATING TEXT.

IN HIS RESPONSE, COOPER AGREED THAT AN AGREEMENT CAN PROBABLY BE REACHED AND GAVE THE GO AHEAD FOR WORK TOWARD A TREATY IN A "TIMELY AND ORDERLY FASHION". THIS PROCESS WILL INVOLVE WRITING A COUNTERTEXT AND GETTING EB/COOPER APPROVAL AND INTERAGENCY CLEARANCE. AT BEST, WE MIGHT BE READY TO NEGOTIATE IN TWO MONTHS, BUT FURTHER SNAGS COULD CAUSE ADDITIONAL DELAY.

10. PENDING MEAT LEGISLATION (LIMITED OFFICIAL USE)

ON AUGUST 8 THE WAYS AND MEANS COMMITTEE'S TRADE SUBCOMMITTEE MARKED UP AND ALTERED THE POAGE BILL WHICH  
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FURTHER LIMITS MEAT IMPORTS. THE ALTERED BILL IS SIMILAR TO AN EARLIER USDA PLAN WHICH IS LESS RESTRICTIVE THAN THE ORIGINAL BILL, BUT STILL MORE RESTRICTIVE THAN DESIRABLE. THE MAIN EFFECTS OF THE BILL ARE TO: (1) MAKE US MEAT IMPORT POLICY COUNTERCYCLICAL, ALLOWING IN MORE BEEF DURING POOR PRODUCTION YEARS AND LESS DURING GOOD YEARS. A FLOOR OF 1.2 BILLION POUNDS OF IMPORTS PER YEAR WAS SET; (2) LIMIT PRESIDENTIAL AUTHORITY TO SUSPEND THE QUOTA. UNDER THE SUBCOMMITTEE'S PLAN HE CAN RAISE OR LOWER IT BY NO MORE THAN 10 PERCENT, AND THEN ONLY UNDER SPECIFIED CONDITIONS; AND (3) ADD TWO TSUS CATEGORIES FOR PROCESSED BEEF TO THOSE CATEGORIES COVERED UNDER THE QUOTA TO PLUG ANY POTENTIAL LOOPHOLES IN THE QUOTAS.

WE HAVE OPPOSED A COUNTERCYCLICAL PLAN SINCE IT WOULD RAISE DOMESTIC PRICES AND AFFECT OUR RELATIONS WITH AUSTRALIA AND NEW ZEALAND. THE COUNTERCYCLICAL POLICY FORCES THEM TO PAY A HIGH ECONOMIC COST FOR FLUCTUATIONS IN THE US MEAT INDUSTRY.

WITHIN THE ADMINISTRATION ONLY USDA HAS COME OUT IN FAVOR OF THE BILL; TREASURY, STR, THE COUNCIL OF ECONOMIC ADVISORS, AMONG OTHERS, HAVE JOINED STATE IN OPPOSING OR EXPRESSING THEIR CONCERN WITH IT. THE WHITE HOUSE HAS SENT A MEMORANDUM TO THE PRESIDENT BUT NO DECISION HAS BEEN MADE. THE FULL COMMITTEE MARK-UP IS SCHEDULED FOR WEDNESDAY.

11. WOLFF SUBCOMMITTEE REPORT ON JANU'ARY ASIA TRIP  
(UNCLASSIFIED)

THE HOUSE SUBCOMMITTEE ON ASIAN AND PACIFIC AFFAIRS ISSUED ITS REPORT ON ITS JANUARY STUDY MISSION TO ASIA AND THE PACIFIC. THE CONGRESSMEN WERE ENCOURAGED BY REGIONAL DEVELOPMENTS AND PROSPECTS FOR STABILITY BUT NOTED CONCERN OVER DOUBTS ABOUT US POLICY. THE SUB-

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COMMITTEE RECOMMENDED, INTER ALIA: (1) THE ESTABLISHMENT OF AN ASIAN-PACIFIC PARLIAMENTARY ASSEMBLY; (2) APPOINTMENT OF A US AMBASSADOR TO ASEAN; (3) A GREATER US ROLE IN ASSISTING THE EMERGING SOUTHWEST PACIFIC ISLAND NATIONS; (4) CONTINUATION OF OPIC; (5) CONTINUED US SUPPORT FOR THE ADB, BUT QUALIFIED SUPPORT FOR LENDING TO VIETNAM; (6) SUPPORT FOR THE ADMINISTRATION'S HUMAN RIGHTS INITIATIVES; (7) AID UNDERTAKING INTERNATIONAL MARKETING STUDIES PRIOR TO EXTENDING LOANS TO AVOID ENCOURAGING LONG TERM UNMARKETABLE SURPLUS PRODUCTION BY RECIPIENT COUNTRIES; (8) INCREASED CONGRESSIONAL HEARINGS, ESPECIALLY ON INDOCHINA POLITICAL CONDITIONS, REFUGEES AND DOMESTIC POLITICAL CONDITIONS IN NON-COMMUNIST SEA; AND (9) SUPPORT FOR ADMINISTRATION EFFORTS TO NEGOTIATE A MORE EQUITABLE SHARING OF THE DEFENSE BURDEN. THE REPORT ADDS THAT NON-COMMUNIST SEA NATIONS BELIEVE THE US WILL HELP SHAPE THEIR PROSPECTS FOR LONG-TERM STABILITY, UNDERLINING THE IMPORTANCE OF THE US COMMITMENT TO REGIONAL ECONOMIC AND SOCIAL PROGRESS. AS A RESULT, ASIANS EXPRESSED CONCERN OVER THE POSSIBLE ADVERSE IMPACT US TAX AND TRADE LEGISLATION ON THEIR ECONOMIC NEEDS.

12. HOUSE PASSES FOREIGN AID APPROPRIATION (UNCLASSIFIED)

ON AUGUST 14 THE HOUSE COMPLETED CONSIDERATION OF THE FOREIGN AID APPROPRIATION AND BY A VOTE OF 223-167 SENT THE BILL TO THE SENATE. DURING FLOOR CONSIDERATION THE HOUSE ADOPTED, BY A VOTE OF 234-152, AN AMENDMENT OFFERED BY REPRESENTATIVE YOUNG OF FLORIDA PROHIBITING FUNDS APPROPRIATED FOR THE INTERNATIONAL DEVELOPMENT ASSOCIATION BEING USED FOR AID OR REPARATIONS TO THE SRV. THE HOUSE ALSO ADOPTED A 25 MILLION DOLLAR CUT IN THE US CONTRIBUTION TO THE IADB/IDA INSTEAD OF THE 584 MILLION

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DOLLAR CUT PROPOSED BY SUBCOMMITTEE CHAIRMAN LONG. A FURTHER 15 MILLION DOLLAR CUT COVERING OTHER PROVISIONS OF THE BILL WAS ADOPTED BY A VOTE OF 289-95 IN PLACE OF AN 8 PERCENT ACROSS THE BOARD CUT. THE 8 PERCENT CUT WAS DEFEATED 184-199. FINALLY, AN AMENDMENT PROHIBITING THE USE OF US FUNDS IN THE IFIS FOR PROJECTS INCREASING THE PRODUCTION OF SUCH THINGS AS PALM OIL AND STEEL WAS DEFEATED 143-239.

PROMPT SENATE ACTION IS EXPECTED ON THIS LEGISLATION ALTHOUGH GIVEN THE CURRENT CONGRESSIONAL RECESS SCHEDULE, FINAL ACTION ON THE BILL WILL NOT BE COMPLETED BEFORE MID-SEPTEMBER AT THE EARLIEST.

VANCE

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